

CHICKASAW COUNTY
New Hampton, Iowa

INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
June 30, 2004

CHICKASAW COUNTY
New Hampton, Iowa

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CHICKASAW COUNTY
New Hampton, Iowa

OFFICIALS

<u>Name</u>	<u>Term Expires</u>	<u>Title</u>
Arnie Boge	January 2007	Board of Supervisors
Sherry Mattke	January 2007	Board of Supervisors
John Huegel.....	January 2005	Board of Supervisors
James Schueth	January 2005	Board of Supervisors
Virgil Pickar, Jr.....	January 2005	Board of Supervisors
Judy Babcock	January 2005	Auditor
Sue Breitbach.....	January 2007	Treasurer
Cindy Messersmith	January 2007	Recorder
Martin Larsen.....	January 2005	Sheriff
William Wegman	January 2007	Attorney
Douglas Welton	Appointed.....	Assessor

Independent Auditors' Report

To the Officials of Chickasaw County
New Hampton, Iowa

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Chickasaw County, New Hampton, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Chickasaw County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Chickasaw County at June 30, 2004, and the respective changes in financial position and cash flows where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 13 to the financial statements, during the year ended June 30, 2004, Chickasaw County adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*; Statement No. 41, *Budgetary Comparison Schedule – Perspective Differences*; and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

Independent Auditors' Report (Continued)

In accordance with *Government Auditing Standards*, we have also issued our reports dated May 27, 2005 on our consideration of Chickasaw County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 - 9 and 33 - 35 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Chickasaw County's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

May 27, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Chickasaw County provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

2004 FINANCIAL HIGHLIGHTS

- . Revenues of the County's governmental activities increased 14%, or approximately \$1,076,588, from fiscal 2003 to fiscal 2004. Property and other county tax increased approximately \$629,369, operating grants and contributions totaled \$3,303,299, and capital grants and contributions totaled \$1,070,913.
- . Program expenses were 5%, or approximately \$427,908, more in fiscal 2004 than in fiscal 2003. Roads and transportation expense increased approximately \$367,238.
- . The County's net assets increased 4%, or approximately \$753,479, from June 30, 2003 to June 30, 2004.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the County's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Chickasaw County as a whole and present an overall view of the County's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Chickasaw County acts solely as an agent or custodian for the benefit of those outside of County government (Agency Funds).

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the County's budget for the year.

Other Supplementary Information provides detailed information about the non-major Special Revenue and the individual Agency Funds.

REPORTING THE COUNTY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

One of the most important questions asked about the County's finances is, "Is the County as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information which helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Statement of Net Assets presents all of the County's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in the County's net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The Statement of Activities presents information showing how the County's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The County's governmental activities are presented in the Statement of Net Assets and the Statement of Activities. Governmental activities include public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, interest on long-term debt and non-program activities. Property tax and state and federal grants finance most of these activities.

Fund Financial Statements

The County has three kinds of funds:

- 1) Governmental funds account for most of the County's basic services. These focus on how money flows into and out of those funds, and the balances left at year-end that are available for spending. The governmental funds include: 1) the General Fund, and 2) the Special Revenue Funds, such as Mental Health, Rural Services and Secondary Roads. These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed short-term view of the County's general governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) Proprietary funds account for the County's Internal Service Fund, Employee Group Health Insurance Account. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the County's various functions.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

- 3) Fiduciary funds are used to report assets held in a trust or agency capacity for others which cannot be used to support the County's own programs. These fiduciary funds include Agency Funds that account for drainage districts, emergency management services and the County Assessor, to name a few.

The required financial statements for fiduciary funds include a statement of fiduciary assets and liabilities.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. Chickasaw County's combined net assets were slightly increased from a year ago, increasing from \$18.5 million to \$19.3 million. The analysis that follows focuses on the changes in the net assets for governmental activities.

Net Assets of Governmental Activities (Expressed in Thousands)	
	2004
Current and Other Assets	\$9,876
Capital Assets	14,416
Total Assets	24,292
Long-Term Liabilities	599
Other Liabilities	4,361
Total Liabilities	4,960
Net Assets:	
Invested in Capital Assets, Net of Related Debt	14,416
Restricted	3,472
Unrestricted	1,444
Total Net Assets	\$19,332

Net assets of Chickasaw County's governmental activities increased by 4% (\$18.5 million compared to \$19.3 million). The largest portion of the County's net assets is the invested in capital assets (e.g. land, infrastructure, buildings and equipment). Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net assets—the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements was \$1,444,427.

This change in unrestricted net assets was a result of increased expenditures for mental health and economic development. The County increased its investment in roadway equipment and road construction by approximately \$735,970 over the prior year.

Changes in Net Assets of Governmental Activities
(Expressed in Thousands)

	Year ended June 30, 2004
Revenues:	
Program Revenues:	
Charges for Service	\$1,466
Operating Grants, Contributions and Restricted Interest	3,303
Capital Grants, Contributions and Restricted Interest	1,071
General Revenues:	
Property Tax	3,298
Penalty and Interest on Property Tax	28
State Tax Credits	237
Local Option Sales Tax	446
Unrestricted Investment Earning	134
Other General Revenues	58
Total Revenues	10,041
Program Expenses:	
Public Safety and Legal Services	1,095
Physical Health and Social Services	1,070
Mental Health	963
County Environment and Education	607
Roads and Transportation	4,234
Governmental Services to Residents	311
Administration	857
Non-Program	150
Total Expenses	9,287
Increase in Net Assets	753
Net Assets Beginning of Year	18,578
Net Assets End of Year	\$19,332

The results of governmental activities for the year resulted in Chickasaw County's net assets increasing by approximately \$753,479. Revenues for governmental activities increased by approximately \$1.1 million over the prior year, with property and other county tax revenue up from the prior year by approximately \$629,369 or 20%.

The County increased property tax rates for 2004 by an average of 30%, with some of the consideration factors as follows: 1) the County had budgeted a reduction of ending funding balances to 25% of actual expenditures as prescribed by state agencies as well as Farm Bureau, and had attained an actual lower ending fund balance, 2) it was imperative that substantial mental health funding be levied, as prior year balances had been depleted, and 3) increased tax levy was consumed by additional employee benefits of salaries and health insurance, while the County's overall general liability premium increased by 16.56%.

The cost of all governmental activities this year was \$9,287,710. However, as shown in the Statement of Activities on page 11, the amount taxpayers ultimately financed for these activities was only \$4.7 million because some of the cost was paid by those directly benefited from the programs (\$1.46 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$4.37 million). Overall, the County's governmental program revenues, including intergovernmental aid and fees for services, increased in 2004 from approximately \$3.6 million to \$4.0 million. The County paid for the remaining "public benefit" portion of governmental activities with approximately \$3.2 million in taxes

(some of which could only be used for certain programs) and with other revenues, such as interest and general entitlements.

INDIVIDUAL MAJOR FUND ANALYSIS

As Chickasaw County completed the year, its governmental funds reported a combined fund balance of \$5.59 million, a decrease of \$75,010 below last year's total of \$5.66 million. The following are the major reasons for the changes in fund balances of the major funds from the prior year:

- General Fund revenues and expenditures remained consistent when compared to the prior year. The ending fund balance showed an increase of \$17,880 from the prior year to \$2,103,880.
- The County has continued to look for ways to effectively manage the cost of mental health services. For the year, expenditures totaled approximately \$963,821, a decrease of 9% from the prior year. The Mental Health Fund balance at year end decreased by approximately \$36,427 over the prior year.
- Secondary Roads Fund expenditures increased by approximately \$735,970 over the prior year. The Secondary Roads Fund ending balance increased approximately \$208,434, or 18%.

BUDGETARY HIGHLIGHTS

Over the course of the year, Chickasaw County amended its budget two times. The first amendment was made in March 2004, and resulted in an increase in budgeted disbursements related to operating expenses and health insurance. The second amendment was made in May 2004. This amendment was made for operating expenses and economic development.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets

At June 30, 2004, Chickasaw County had approximately \$22 million invested in a broad range of capital assets, including public safety equipment, buildings, park facilities, roads and bridges. This is a net increase (including additions and deletions) of approximately \$1.616 or 8% over last year.

Capital Assets of Governmental Activities at Year End (Expressed in Thousands)		
	June 30,	
	2004	2003
Buildings and Improvements	\$3,244	\$3,244
Equipment	2,931	2,931
Vehicles	1,652	1,551
Infrastructure	15,045	13,530
Total	\$22,872	\$21,256
This year's major additions include (expressed in thousands)		
Capital Assets Contributed by the IA Department of Transportation	\$1,071	
Road Construction	444	
Secondary Roads Equipment	101	
Total	\$1,616	

The County had depreciation expense of \$774,363 in FY 04 and total accumulated depreciation of \$8.455 million at June 30, 2004.

The County's fiscal year 2004 capital budget included \$483,700 for capital projects, principally for the Conservation Department and for continued upgrading of secondary roads and bridges. More detailed information about the County's capital assets is presented in Note 5 to the financial statements.

Long-Term Liabilities

At June 30, 2004 Chickasaw County has approximately \$599,088 in estimated postclosure costs for the Landfill. As postclosure expenses are incurred, such as engineering costs, or the cost of leachate disposal, the estimated costs are reduced. For fiscal year 2003, the estimate was \$624,400. The County is required to demonstrate financial assurance for the estimated costs at a minimum. At June 30, 2004, the balance restricted for postclosure costs was \$633,467.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Chickasaw County's elected and appointed officials and citizens considered many factors when setting the fiscal year 2005 budget, tax rates, and the fees that will be charged for various County activities. One of those factors is the economy. The County's major valuation of agriculture land valuation dropped substantially due to implementation of 2003 valuations, payable in 2004-2005, causing a shift in taxpayer collections. The County has also suffered from loss of employment as a result of Sara Lee, Featherlight, Con Agra and AMPI plant closings during recent past years. Unemployment in the County now stands at 5.0 percent for May 2005, versus 5.8 percent for May 2004 and 5.4 percent for May 2003. This compares with the State's unemployment rate of 3.4 percent and the national rate of 3.9 percent.

Inflation in the State continues to be somewhat lower than the national Consumer Price Index increase. The State's CPI increase was 3.2 percent for fiscal year 2004 compared with the national rate of 3.4. Inflation has been modest here due in part to the slowing of the residential housing market and modest increases in energy prices in 2003-2004. However, public sector employment costs are rising dramatically due to salary increases and employee benefits.

These indicators were taken into account when adopting the budget for fiscal year 2005. The tax levy for the operating budget has increased to 8.615 over the prior year 7.14, increasing the asking to \$3,859,155 from the \$3,448,142 over the final 2004 budget. The County has added no major new programs or initiatives to the 2005 budget, with the exception of mandated Homeland Security and Bioterrorism. The County is anticipating Case Management services to be shared with Mitchell County and CPC for coordination of mental health services, beginning July 1, 2004.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, and credits with a general overview of Chickasaw County's finances and to show the County's accountability for the monies it receives. If you have questions about this report or need additional financial information, contact the Chickasaw County Auditor's Office, 8 E. Prospect Avenue, PO Box 311, New Hampton, Iowa 50659.

CHICKASAW COUNTY
New Hampton, Iowa

STATEMENT OF NET ASSETS
June 30, 2004

	Governmental Activities
ASSETS	
Cash & Pooled Investments	\$5,469,246
Receivables	
Property Tax	
Delinquent	7,318
Succeeding Year	3,343,791
Accounts	75,427
Accrued Interest	50,287
Due From Other Governments	270,684
Inventories	659,525
Capital Assets (Net of Accumulated Depreciation)	14,416,528
TOTAL ASSETS	24,292,806
LIABILITIES	
Accounts Payable	724,065
Salaries & Benefits Payable	70,237
Due To Other Governments	69,942
Deferred Revenue	
Succeeding Year Property Tax	3,343,791
Long Term Liabilities	
Portion Due Or Payable Within One Year	
Compensated Absences	153,834
Portion Due Or Payable After One Year	
Estimated Postclosure Costs	599,088
TOTAL LIABILITIES	4,960,957
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	14,416,527
Restricted For:	
Mental Health Purposes	369,993
Secondary Roads Purposes	1,493,612
Other Purposes	1,607,290
Unrestricted	1,444,427
TOTAL NET ASSETS	\$19,331,849

See Notes To Financial Statements

CHICKASAW COUNTY
New Hampton, Iowa

STATEMENT OF ACTIVITIES
Year Ended June 30, 2004

FUNCTIONS/PROGRAMS:	Expenses	Charges for Service	Program Revenues		
			Operating Grants, Contributions, & Restricted Interest	Capital Grants, Net (Expense) Grants, Contributions, & Restricted Interest	Revenue & Changes In Net Assets
GOVERNMENTAL ACTIVITIES:					
Public Safety and Legal Services	\$1,094,609	\$185,259	\$18,992	\$ 0	\$(890,358)
Physical Health and Social Services	1,069,756	566,441	159,577	0	(343,738)
Mental Health	963,821	27,885	598,266	0	(337,670)
County Environment and Education	606,956	11,942	114,720	0	(480,294)
Roads and Transportation	4,234,069	99,182	2,411,744	1,070,913	(652,230)
Governmental Services to Residents	311,261	225,519	0	0	(85,742)
Administration	857,251	206,257	0	0	(650,994)
Non-Program	149,987	143,541	0	0	(6,446)
TOTAL	\$9,287,710	\$1,466,026	\$3,303,299	\$1,070,913	(3,447,472)
GENERAL REVENUES:					
Property and Other County Tax Levied For:					
General Purposes					3,297,857
Penalties and Interest on Property Tax					28,503
State Tax Credits					237,160
Local Option Sales Tax					446,001
Unrestricted Investment Earnings					134,410
Miscellaneous					57,020
TOTAL GENERAL REVENUES					4,200,951
CHANGE IN NET ASSETS					753,479
NET ASSETS, BEGINNING OF YEAR (as restated Note 13)					18,578,370
NET ASSETS END OF YEAR					\$19,331,849

See Notes To Financial Statements

CHICKASAW COUNTY
New Hampton, Iowa

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2004

	General	<u>Special Revenue</u> Mental Health
ASSETS		
Cash and Pooled Investments	\$2,015,011	\$443,785
Receivables		
Property Tax		
Delinquent	5,162	652
Succeeding Year	2,262,251	285,673
Accounts	68,759	3,127
Accrued Interest	49,750	0
Due From Other Funds	7,053	0
Due From Other Governments	62,600	12,097
Inventories	0	0
TOTAL ASSETS	\$4,470,586	\$745,334
LIABILITIES AND FUND BALANCES		
Liabilities		
Accounts Payable	\$35,528	\$34,913
Salaries and Benefits Payable	37,820	0
Due To Other Governments	7,760	54,103
Deferred Revenue		
Succeeding Year Property Tax	2,262,251	285,673
Other	23,347	652
Total Liabilities	2,366,706	375,341
Fund Balances		
Reserved For:		
Inventories	0	0
Unreserved, Reported in:		
General Fund	2,103,880	0
Special Revenue Funds	0	369,993
Total Fund Balances	2,103,880	369,993
TOTAL LIABILITIES AND FUND BALANCES	\$4,470,586	\$745,334

See Notes To Financial Statements

Special Revenue		Nonmajor Special Revenue	Total
Rural Services	Secondary Roads		
\$490,084	\$1,366,174	\$1,074,724	\$5,389,778
1,504	0	0	7,318
795,867	0	0	3,343,791
0	2,456	1,085	75,427
0	0	537	50,287
0	0	0	7,053
8,095	180,111	7,781	270,684
0	659,525	0	659,525
<hr/>			
\$1,295,550	\$2,208,266	\$1,084,127	\$9,803,863
<hr/>			
\$15	\$606,192	\$25,249	\$701,897
0	32,417	0	70,237
0	8,079	0	69,942
795,867	0	0	3,343,791
1,504	0	0	25,503
797,386	646,688	25,249	4,211,370
<hr/>			
0	659,525	0	659,525
0	0	0	2,103,880
498,164	902,053	1,058,878	2,829,088
498,164	1,561,578	1,058,878	5,592,493
<hr/>			
\$1,295,550	\$2,208,266	\$1,084,127	\$9,803,863
<hr/>			

CHICKASAW COUNTY
New Hampton, Iowa

RECONCILIATION OF THE BALANCE SHEET
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS

June 30, 2004

Total Governmental Fund Balances – Page 13 (Exhibit C) \$5,592,493

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of the assets is \$22,872,456 and the accumulated depreciation is \$8,455,928. 14,416,528

Other long-term assets are not available to pay current expenditures and, therefore, are deferred in the funds. 25,502

The Internal Service Fund is used by management to charge the costs of self funding of the County's health insurance benefit plan to individual funds. The assets and liabilities of the Internal Service Fund are included in governmental activities in the Statement of Net Assets. 50,248

Long-term liabilities, including capital lease purchase agreements payable, bonds payable, compensated absences payable, and accrued interest payable are not due and payable in the current period and, therefore, are not reported in the funds. (752,922)

Net Assets of Governmental Activities – Page 10 (Exhibit A) \$19,331,849

See Notes To Financial Statements.

CHICKASAW COUNTY
New Hampton, Iowa

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2004

	General	Special Revenue Mental Health
REVENUES		
Property and Other County Tax	\$2,218,438	\$280,141
Interest and Penalty on Property Tax	28,503	0
Intergovernmental	906,795	619,332
Licenses and Permits	12,125	0
Charges for Services	596,284	27,885
Use of Money and Property	139,213	0
Miscellaneous	115,977	36
Total Revenues	4,017,335	927,394
EXPENDITURES		
Operating		
Public Safety and Legal Services	1,024,919	0
Physical Health and Social Services	1,049,749	0
Mental Health	0	963,821
County Environment and Education	376,389	0
Roads and Transportation	0	0
Governmental Services to Residents	295,670	0
Administrative Services	830,828	0
Capital Projects	0	0
Total Expenditures	3,577,555	963,821
Excess (Deficiency) of Revenues Over (Under) Expenditures	439,780	(36,427)
Other Financing Sources (Uses)		
Operating Transfers In	0	0
Operating Transfers Out	(421,900)	0
Total Other Financing Sources (Uses)	(421,900)	0
Net Change in Fund Balances	17,880	(36,427)
Fund Balances – Beginning of Year, as Restated (Note 13)	2,086,000	406,420
Increase in Reserve For Inventories	0	0
Fund Balances – End of Year	\$2,103,880	\$369,993

See Notes To Financial Statements

Exhibit E

Special Revenue Funds		Non-major Special Revenue	Total
Rural Services	Secondary Roads		
\$907,695	\$223,000	\$111,500	\$3,740,774
0	0	0	28,503
54,267	2,415,693	11,603	4,007,690
0	1,040	0	13,165
0	37,499	27,845	689,513
0	0	9,502	148,715
0	56,699	8,000	180,712
961,962	2,733,931	168,450	8,809,072
6,647	0	31,737	1,063,303
0	0	0	1,049,749
0	0	0	963,821
72,541	0	157,249	606,179
0	3,641,090	0	3,641,090
0	0	0	295,670
0	0	2,100	832,928
0	431,342	0	431,342
79,188	4,072,432	191,086	8,884,082
882,774	(1,338,501)	(22,636)	(75,010)
0	1,130,067	649,400	1,779,467
(1,357,567)	0	0	(1,779,467)
(1,357,567)	1,130,067	649,400	0
(474,793)	(208,434)	626,764	(75,010)
972,957	1,769,248	432,114	5,666,739
0	764	0	764
\$498,164	\$1,561,578	\$1,058,878	\$5,592,493

CHICKASAW COUNTY
New Hampton, Iowa

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds – Pages 15-16 (Exhibit E) \$(74,246)

*Amounts reported for governmental activities in the Statement of
Activities are different because:*

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. Capital outlay expenditures and contributed capital assets exceeded depreciation expense in the current year as follows:

Expenditures for capital assets	\$545,263	
Capital assets contributed by the Iowa Department of Transportation	1,070,913	
Depreciation Expense	(774,364)	841,812

Because some revenues will not be collected for several months after the County's year end, they are not considered available revenues and are deferred in the governmental funds as follows:

Property Tax	3,084	
Other	13,951	17,035

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds as follows:

Compensated absences	(23,159)	
Postclosure costs	25,311	2,152

The Internal Service Fund is used by management to charge the costs of employee health benefits to individual funds. The change in net assets of the Internal Service Fund is reported with governmental activities.

(33,274)

Change in net assets of Governmental Activities – Page 11 (Exhibit B)

\$753,479

See Notes to Financial Statements

CHICKASAW COUNTY
New Hampton, Iowa**STATEMENT OF NET ASSETS**
PROPRIETARY FUND
June 30, 2004

	Internal Service Employee Group Health
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$72,415
<hr/>	
LIABILITIES	
Accounts Payable	22,167
<hr/>	
NET ASSETS	
Unrestricted	\$50,248
<hr/> <hr/>	

See Notes To Financial Statements

CHICKASAW COUNTY
New Hampton, Iowa

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
Year Ended June 30, 2004

	Internal Service Employee Group Health
<hr/>	
OPERATING REVENUES	
Reimbursements From Operating Funds	\$566,814
Reimbursements From Employees	83,138
Other Reimbursements	105,046
Total Operating Revenues	<hr/> 754,998 <hr/>
 OPERATING EXPENSES	
Medical Claims	581,765
Insurance Premiums	162,412
Administrative Fees	1,400
Flex Benefits	43,323
Total Operating Expenses	<hr/> 788,900 <hr/>
 Operating Loss	 (33,902)
 NON-OPERATING INCOME	
Interest	628
 Net Assets Beginning of Year	 <hr/> 83,522 <hr/>
 Net Assets End of Year	 <hr/> \$50,248 <hr/>

See Notes To Financial Statements

CHICKASAW COUNTY
New Hampton, Iowa

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
Year Ended June 30, 2004

	Internal Service Employee Group Health
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received From Operating Fund Reimbursements	\$566,814
Cash Received From Employees and Others	188,184
Cash Payments To Suppliers For Services	(816,443)
Net Cash Used In Operating Activities	<u>(61,445)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on Investments	<u>628</u>
Net Decrease in Cash and Cash Equivalents	(60,817)
Cash & Cash Equivalents at Beginning of Year	<u>133,232</u>
Cash & Cash Equivalents at End of Year	<u><u>\$72,415</u></u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES	
Operating Loss	\$(33,902)
Adjustments to Reconcile Operating Loss to Net Cash Used In Operating Activities	
Increase In Accounts Receivable	<u>(27,543)</u>
Net Cash Used In Operating Activities	<u><u>\$(61,445)</u></u>

See Notes To Financial Statements

**CHICKASAW COUNTY
New Hampton, Iowa****STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
June 30, 2004****ASSETS**

Cash & Pooled Investments	
County Treasurer	\$773,809
Other County Officials	11,809
Receivables	
Property Tax	
Succeeding Year	9,583,428
Accounts	21,625
Accrued Interest	90
Due from Other Governments	6,306
TOTAL ASSETS	10,397,067

LIABILITIES

Accounts Payable	3,851
Salaries & Benefits Payable	3,056
Due To Other Governments	10,356,641
Trusts Payable	33,519
TOTAL LIABILITIES	10,397,067

NET ASSETS	\$ 0
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See Notes To Financial Statements

CHICKASAW COUNTY
New Hampton, Iowa

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies

Chickasaw County is a political subdivision of the State of Iowa and operates under the Home Rule provisions of the Constitution of Iowa. The County operates under the Board of Supervisors form of government. Elections are on a partisan basis. Other elected officials operate independently with the Board of Supervisors. These officials are the Auditor, Treasurer, Recorder, Sheriff, and Attorney. The County provides numerous services to citizens, including law enforcement, health and social services, parks and cultural activities, planning and zoning, roadway construction and maintenance, and general administrative services.

The County's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. REPORTING ENTITY

For financial reporting purposes, Chickasaw County has included all funds, organizations, agencies, boards, commissions, and authorities. The County has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the County to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the County.

These financial statements present Chickasaw County (the primary government) and its component units. The component units discussed below are included in the County's reporting entity because of the significance of their operational or financial relationships with the County.

Jointly Governed Organizations – The County also participates in several jointly governed organizations that provide goods or services to the citizenry of the County but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The Chickasaw County Board of Supervisors are members of or appoint representatives to the following boards and commissions: Chickasaw County Assessor's Conference Board, Chickasaw County Emergency Management Commission, and Chickasaw County Joint E911 Service Board. Financial transactions of these organizations are included in the County's financial statements only to the extent of the County's fiduciary relationship with the organization and, as such, are reported in the Agency Funds of the County.

B. BASIS OF PRESENTATION

Government-wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the non-fiduciary activities of the County and its component units. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities are supported by property tax, intergovernmental revenues and other non-exchange transactions.

The Statement of Net Assets presents the County's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

B. BASIS OF PRESENTATION (CONTINUED)

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds.

The County reports the following major governmental funds:

The General Fund is the general operating fund of the County. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue

The Mental Health Fund is used to account for property tax and other revenues designated to be used to fund mental health, mental retardation, and developmental disabilities services.

The Rural Services Fund is used to account for property tax and other revenues to provide services which are primarily intended to benefit those persons residing in the county outside of incorporated city areas.

The Secondary Roads Fund is used to account for the secondary road construction and maintenance.

Additionally the County reports the following funds:

Proprietary Fund – An Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the County and provided to other departments or agencies on a cost reimbursement basis.

Fiduciary Funds – Agency funds are used to account for assets held by the county as an agent for individuals, private organizations, certain jointly governed organizations, other governmental units, and/or other funds.

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The government-wide, proprietary fund and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the County.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However principal and interest on long term debt, claims, judgments and compensated absences are recorded as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the county funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the County's policy to first apply the cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

The County maintains its financial records on the cash basis. The financial statements of the County are prepared by making memorandum adjusting entries to the cash basis financial records.

D. ASSETS, LIABILITIES AND FUND EQUITY

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most County funds are pooled and invested. Interest earned on investments is recorded in the General Fund, unless otherwise provided by law. Investments are stated at fair value except for the investment in the Iowa Public Agency Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

D. Assets, liabilities and Fund Equity (Continued)

Property Tax Receivable – Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify its budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March, 2003.

Interest and Penalty on Property Tax Receivable – Interest and penalty on property tax receivable represents the amount of interest and penalty that was due and payable, but has not been collected.

Due from and Due to Other Funds – During the course of its operations, the County has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2004, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

Due from Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants, and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method. Inventories in the Special Revenue Funds consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased. Reported inventories are equally offset by a fund balance reserve which indicates that they are not available to liquidate current obligations.

Capital Assets – Capital assets, which include property, equipment and vehicles, and infrastructure assets (e.g., roads, bridges, curbs, gutters, sidewalks and similar items which are immovable and of value only to the government), are reported in the governmental activities column in the government-wide statement of net assets. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the County as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Infrastructure	\$50,000
Land, Buildings and Improvements	25,000

Equipment and Vehicles

5,000

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

D. ASSETS, LIABILITIES AND FUND EQUITY (CONTINUED)

Capital assets of the County are depreciated using the straight line method over the following estimated useful lives.

	Estimated	Useful Lives
<u>Asset Class</u>	<u>(In Years)</u>	
Buildings	20-50	
Infrastructure	30-50	
Equipment	2-20	

Due to Other Governments – Due to other governments represents taxes and other revenues collected by the County and payments for services which will be remitted to other governments.

Trusts Payable – Trusts payable represents amounts due to others which are held by various County officials in fiduciary capacities until the underlying legal matters are resolved.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year-end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied and unspent grant proceeds.

Compensated Absences – County employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004. The compensated absence liability attributable to the governmental activities will be paid primarily by the General, Mental Health, Rural Services and Secondary Roads Funds.

Long-term Liabilities – In the government-wide and proprietary fund financial statements, long term debt and other long term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type Statement of Net Assets. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

E. BUDGETS AND BUDGETARY ACCOUNTING

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements did not exceed amounts budgeted in any function.

Note 2: Cash and Pooled Investments

The County's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The County is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Supervisors; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The County had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$35,752, pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

Note 3: Due from and Due to Other Funds

The detail of inter-fund receivables and payables for the year ended June 30, 2004 is as follows:

Receivable Fund	Payable Fund	Amount
General	Agency:	
	Auto License and Use Tax	\$7,053

These balances result from the time lag between the dates that inter-fund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Note 4: Inter-fund Transfers

The detail of inter-fund transfers for the year ended June 30, 2004 is as follows:

Transfer To	Transfer From	Amount
Special Revenue:		
Landfill	General	\$421,900
Secondary Roads	Special Revenue:	
	Rural Services	1,130,067
Landfill	Rural Services	227,500
Agency	Agency	
County Assessor	Special Appraisal	45,000
Total		<u>\$1,824,467</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

Notes to Financial Statements (Continued)

Note 5: Capital Assets

Capital assets activity for the year ended June 30, 2004 was as follows:

	Balance Beginning Of Year	Increases	Decreases	Balance End of Year
Capital assets being depreciated:				
Buildings	\$3,244,365	\$ 0	\$ 0	\$3,244,365
Equipment	2,930,667	0	0	2,930,667
Vehicles	1,550,882	100,990	0	1,651,872
Infrastructure	13,530,366	1,515,186	0	15,045,552
Total capital assets being depreciated	21,256,280	1,616,176	0	22,872,456
Less accumulated depreciation for:				
Buildings	552,654	50,743	0	603,397
Equipment	1,387,702	146,600	0	1,534,302
Vehicles	761,254	98,977	0	860,231
Infrastructure	4,979,955	478,043	0	5,457,998
Total accumulated depreciation	7,681,565	774,363	0	8,455,928
Total capital assets being depreciated, net	13,574,715	841,813	0	14,416,528
Governmental activities capital assets, net	\$13,574,715	\$841,813	\$ 0	\$14,416,528

Depreciation was charged to functions of the primary government as follows:

Governmental activities:	
Public safety and legal services	\$20,205
Physical health and social services	6,385
County environment and education	24,142
Roads and transportation	691,513
Governmental services to residents	8,346
Administration	23,772
Total depreciation expense – governmental activities	<u>\$774,363</u>

Notes to Financial Statements (Continued)

Note 6: Due to Other Governments

The County purchases services from other governmental units and also acts as a fee and tax collection agent for various governmental units. Tax collections are remitted to those governments in the month following collection. A summary of amounts due to other governments is as follows:

Fund	Description	Amount
General	Services	\$7,760
Special Revenue:		
Mental Health	Services	54,103
Secondary Roads		8,079
Total for governmental funds		<u>\$69,942</u>
Agency:		
Agricultural Extension	Collections	\$129,474
Assessor & Special Appraisal		268,393
Schools		6,756,516
Area Schools		313,871
Corporations		1,532,261
Auto License & Use Tax		245,062
All Others		1,111,064
Total for agency funds		<u>\$10,356,641</u>

Note 7: Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2004, is as follows:

	Estimated Liability for Landfill Postclosure Costs	Compensated Absences	Total
Balance beginning of year	\$624,400	\$130,674	\$755,074
Additions	0	23,160	23,160
Reductions	25,312	0	25,312
Balance end of year	<u>\$599,088</u>	<u>\$153,834</u>	<u>\$752,922</u>

Postclosure Care Costs

State and federal laws and regulations require the County to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The County stopped accepting waste at the landfill. Although closure and postclosure care costs will be paid only near or after the date that the landfill stopped accepting waste, the County reports a portion of these closure and postclosure care costs as a liability based on landfill capacity used as of each balance sheet date. The \$599,088 reported as estimated liability for landfill postclosure care costs at June 30, 2004, represents the cumulative amount reported to date based on the use of 100% of the estimated capacity of the landfill. These amounts are based on what it would cost to perform all postclosure care during the year ended June 30, 2004. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

In anticipation of State regulations requiring municipal solid waste landfills to demonstrate financial responsibility for the costs of closure and postclosure care, the County has restricted \$633,692 as of June 30, 2004 for such purpose. These funds are reflected as a restriction of fund balance within the Special Revenue

– Landfill Postclosure Costs Fund. This restriction represents the County's intended use of these funds, they are currently not available for those purposes.

Notes to Financial Statements (Continued)

Note 8: Pension and Retirement Benefits

The County contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the County is required to contribute 5.75% of annual covered payroll except for law enforcement employees, in which case the percentages for the year ended June 30, 2004 are 4.99% and 7.48%, respectively. For the year ended June 30, 2003, the contribution rates for law enforcement employees and the County were 5.37% and 8.05%, respectively, and for the year ended June 30, 2002, the contribution rates for law enforcement employees and the County were 5.50% and 8.25%, respectively. Contribution requirements are established by State statute. The County's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$165,146, \$165,532, and \$153,327, respectively, equal to the required contributions for each year.

Note 9: Risk Management

Chickasaw County is a member in the Heartland Insurance Risk Pool, as allowed by Chapter 331.301 of the Code of Iowa. The Heartland Insurance Risk Pool (Pool) is a local government risk-sharing pool whose 10 members include various governmental entities throughout the State of Iowa. The Pool was formed July 1, 1987 for the purpose of providing a voluntary self-insured program to counties in the State of Iowa. The program is designed to provide members a greatly improved loss control program whose purpose is to reduce claims and accidents; aid through sound and equitable claim management practices to reduce costs; and provide the required and/or desired reinsurance at a discount, based on volume and lower risk exposure. The Pool provides coverage and protection in the following categories: workers' compensation, automobile liability, automobile physical damage and crime lines of business on an occurrence basis. General liability coverage is written on a claims-made basis. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the pool's general and administrative expenses, claims, claims expenses, and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital.

The Pool also provides property, inland marine, boiler, public officials errors and omissions, law enforcement liability and business income and extra expense coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of a deficiency in capital. Any year end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The County's property and casualty contribution to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The County's annual contributions to the Pool for the year ended June 30, 2004 were \$207,890.

Notes to Financial Statements (Continued)

Note 9: Risk Management (Continued)

The Pool uses reinsurance and excess risk sharing agreements to reduce its exposure to large losses. The Pool retains automobile and general liability risks in excess of \$250,000 up to \$1,000,000 per claim. The Pool retains workers' compensation risks in excess of \$350,000 up to \$1,000,000 per claim. Automobile and general liability claims exceeding \$1,000,000 are reinsured in an amount not to exceed \$3,000,000 per claim. Workers' compensation claims exceeding \$1,000,000 are reinsured in an amount not to exceed \$2,000,000. Crime lines of business risks are retained by the Pool up to \$25,000 per occurrence. Automobile physical damage risks are retained by the Pool up to the replacement cost of the vehicle. All property, inland marine, boiler, public officials errors and omissions, business income and expense, and law enforcement liability risks are also reinsured on an individual member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk sharing protection provided by the member's risk sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The County does not report a liability for losses in excess of reinsurance or excess risk sharing recoveries unless it is deemed probable that such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2004, no liability has been recorded in the County's financial statements. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance company coverage in any of the past fiscal years.

Members agree to continue membership in the Pool for a period of not less than three full years. Subsequent to this initial term, the member may withdraw at the end of the third fiscal year of any three year term, only after at least 60 days prior written notice. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Upon withdrawal, the member is refunded 100 percent of its capital contributions, however, the refund is reduced by an amount equal to the annual operating contribution, which the withdrawing member would have made for the one year period following withdrawal and the member's proportionate share of any capital deficiency.

Note 10: Employee Health Insurance Plan

As of January 1, 2003, the County returned to a fully self-funded health insurance plan. The plan is funded by both employee and County contributions and is administered through a service agreement with Midwest Benefits, Inc. The agreement is subject to automatic renewal provisions. Monthly payments of service fees and plan contributions to the Chickasaw County Health Self Funding Fund are recorded as expenditures from the operating funds. Under the administrative services agreement, monthly payments of service fees and claims processed are paid to Midwest Benefits from the Chickasaw County Health Insurance Funding Fund. The County records the plan assets and related liabilities of the Chickasaw County Health Insurance Funding as an Internal Service Fund. The County's contribution to the fund for the year ended June 30, 2004 was \$566,814.

The amounts payable from the Internal Service, Employee Groups Health Fund at June 30, 2004, for incurred but not reported (IBNR) and reported but not paid claims has not been determined since the County's actuarial report as of December 31, 2004. The June 30, 2004 amounts are not available, but are not deemed to be material to the financial statements.

Notes to Financial Statements (Continued)

Note 11: Business Transactions

Business transactions between the County and County officials or employees were noted during the course of our audit.

Note 12: Deficit Balance

The Special Revenue Fund – Ambulance Service had a deficit balance of \$17,836 at June 30, 2004.

Note 13: Accounting Change

Governmental Accounting Standards Board Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* was implemented during the year ended June 30, 2004. The interpretation modifies when compensated absence liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*; Statement No. 37, *Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*; and Statement No. 41, *Budgetary Comparison Schedule - Perspective Differences* and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* were implemented during the year ended June 30, 2004. The statements create new basic financial statements for reporting the County's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in one column.

The government-wide statements report the County's governmental activities. Beginning net assets for governmental activities has been restated to include capital assets, the Internal Service Fund and the changes in assets and liabilities at July 1, 2003 resulting from the conversion to the accrual basis of accounting.

The effects of the accounting change and other restatements in the governmental activities are summarized as follows:

Net assets, June 30, 2003, as previously reported	\$5,633,010
GASB Interpretation 6 Adjustments	33,729
Net assets, July 1, 2003, as restated for governmental funds	<u>5,666,739</u>
 GASB 34 Adjustments	
Capital assets, net of accumulated depreciation of \$7,681,564	13,574,716
Internal Service Fund	83,522
Long-term Liabilities	(755,075)
Deferral of Long-term Assets	<u>8,468</u>
 Net Assets, July 1, 2003 as restated:	<u><u>\$18,578,370</u></u>

CHICKASAW COUNTY
New Hampton, Iowa

**BUDGETARY COMPARISON SCHEDULE OF RECEIPTS,
DISBURSEMENTS AND CHANGES IN BALANCES
BUDGET AND ACTUAL (CASH BASIS) – ALL GOVERNMENTAL FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2004**

	Actual	Less Funds Not Required to Be Budgeted	Net	Budgeted Amounts		Final to Net Variance
				Original	Final	
RECEIPTS						
Property & Other County Tax	\$3,725,797	\$ 0	\$3,725,797	\$3,819,228	\$3,819,228	\$(93,431)
Interest & Penalty on Property Tax	28,642	0	28,642	30,000	30,000	(1,358)
Intergovernmental	4,067,185	0	4,067,185	4,057,367	4,070,167	(2,982)
Licenses & Permits	12,767	0	12,767	7,105	7,105	5,662
Charges for Services	685,745	0	685,745	553,669	651,700	34,045
Use of Money & Property	161,820	0	161,820	195,435	168,000	(6,180)
Miscellaneous	179,957	0	179,957	54,957	133,895	46,062
Total Receipts	8,861,913	0	8,861,913	8,717,761	8,880,095	(18,182)
DISBURSEMENTS						
Public Safety & Legal Services	1,067,331	0	1,067,331	1,073,922	1,115,372	48,041
Physical Health & Social Services	1,043,487	0	1,043,487	1,131,115	1,170,663	127,176
Mental Health	1,034,191	0	1,034,191	1,100,720	1,100,720	66,529
County Environment & Education	615,913	0	615,913	501,017	643,157	27,244
Roads & Transportation	3,230,300	0	3,230,300	3,317,300	3,317,300	87,000
Governmental Services to Residents	294,569	0	294,569	329,919	330,864	36,295
Administrative Services	893,422	0	893,422	1,200,862	1,222,337	328,915
Capital Projects	431,342	0	431,342	533,700	483,700	52,358
Total Disbursements	8,610,555	0	8,610,555	9,188,555	9,384,113	773,558
Excess (Deficiency) of Receipts Over (Under) Disbursements	251,358	0	251,358	(470,794)	(504,018)	755,376
Other Financing Sources, Net	0	0	0	500	500	(500)
Excess (Deficiency) of Receipts & Other Financing Sources Over (Under) Disbursements & Other Financing Uses	251,358	0	251,358	(470,294)	(503,518)	754,876
Balance Beginning of Year	5,138,420	0	5,138,420	4,501,335	5,138,421	(1)
Balance End of Year	\$5,389,778	\$ 0	\$5,389,778	\$4,031,041	\$4,634,903	\$754,875

See Accompanying Independent Auditors' Report

CHICKASAW COUNTY
New Hampton, Iowa

BUDGETARY COMPARISON SCHEDULE - BUDGET TO GAAP RECONCILIATION
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2004

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$8,861,913	\$(52,841)	\$8,809,072
Expenditures	8,610,555	273,527	8,884,082
Net	251,358	(326,368)	(75,010)
Beginning Fund Balances	5,138,420	528,319	5,666,739
Increase in Reserve For:			
Inventories	0	764	764
Ending Fund Balances	\$5,389,778	\$202,715	\$5,592,493

See Accompanying Independent Auditors' Report

Chickasaw County
New Hampton, Iowa

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2004

In accordance with the Code of Iowa, the County Board of Supervisors annually adopts a budget on the cash basis following required public notice and hearing for all funds, except blended component units and Agency Funds, and appropriates the amount deemed necessary for each of the different County offices and departments. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriation lapse at year end.

Formal and legal budgetary control is based upon 10 major classes of expenditures known as functions, not by fund or fund type. These 10 functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, two budget amendments increased budgeted disbursements by \$195,558. The budget amendment is reflected in the final budgeted amounts.

In addition, annual budgets are similarly adopted in accordance with the Code of Iowa by the appropriate governing body as indicated: for the County Extension Office by the County Agricultural Extension Council, for the County Assessor by the County Conference Board, for the E911 System by the Joint E911 Service Board and for Emergency Management Services by the County Emergency Management Commission.

During the year ended June 30, 2004, disbursements were not in excess of the amounts budgeted in any function.

CHICKASAW COUNTY
New Hampton, Iowa

COMBINING BALANCE SHEET
NON-MAJOR SPECIAL REVENUE FUNDS
June 30, 2004

	REAP	Recorder's Records Management	County Betterment	Economic Development
ASSETS				
Cash & Pooled Investments	\$10,445	\$7,937	\$144,743	\$231,575
Receivables				
Accounts	0	289	0	0
Accrued Interest	3	4	0	0
Due from Other Governments	0	0	4,669	3,112
TOTAL ASSETS	\$10,448	\$8,230	\$149,412	\$234,687
LIABILITIES & FUND EQUITY				
Liabilities				
Accounts Payable	\$ 0	\$ 0	\$ 0	\$ 0
Fund Equity				
Fund Balance				
Unreserved	10,448	8,230	149,412	234,687
TOTAL LIABILITIES & FUND EQUITY	\$10,448	\$8,230	\$149,412	\$234,687

See Accompanying Independent Auditors' Report

Schedule 1

Conservation Land Acquisition	Sheriff's K-9 Unit	Sheriff's Dare	Ambulance Services	County Recorder's Electronic Transactions Fee	Landfill Postclosure Costs	Total
\$6,200	\$10,586	\$147	\$7,164	\$22,726	\$633,201	\$1,074,724
0	796	0	0	0	0	1,085
0	5	0	0	10	515	537
0	0	0	0	0	0	7,781
\$6,200	\$11,387	\$147	\$7,164	\$22,736	\$633,716	\$1,084,127
\$ 0	\$ 0	\$ 0	\$25,000	\$ 0	\$249	\$25,249
6,200	11,387	147	(17,836)	22,736	633,467	1,058,878
\$6,200	\$11,387	\$147	\$7,164	\$22,736	\$633,716	\$1,084,127

CHICKASAW COUNTY
New Hampton, Iowa

**COMBINING SCHEDULE OF REVENUES
AND CHANGES IN FUND BALANCES
NON-MAJOR SPECIAL REVENUE FUNDS
Year Ended June 30, 2004**

	REAP	County Recorder's Records Management	County Betterment	Economic Development
Revenues				
Property & Other County Tax	\$ 0	\$ 0	\$66,901	\$44,599
Intergovernmental	9,930	0	0	0
Charges for Services	0	3,258	0	0
Use of Money and Property	13	43	0	0
Miscellaneous	0	0	0	0
Total Revenues	9,943	3,301	66,901	44,599
Expenditures				
Operating				
Public Safety & Legal Services	0	0	0	0
County Environment & Education	0	0	49,000	108,000
Administration	0	0	2,100	0
Total Expenditures	0	0	51,100	108,000
Excess (Deficiency) of Revenues Over (Under) Expenditures	9,943	3,301	15,801	(63,401)
Other Financing Sources				
Operating Transfers In	0	0	0	0
Total Other Financing Sources	0	0	0	0
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures	9,943	3,301	15,801	(63,401)
Fund Balances – Beginning of Year	505	4,929	133,611	298,088
Fund Balances – End of Year	\$10,448	\$8,230	\$149,412	\$234,687

See Accompanying Independent Auditors' Report

Schedule 2

Conservation Land Acquisition	Sheriff's K-9 Unit	Sheriff's Dare	Ambulance Services	County Recorder's Electronic Transactions Fee	Landfill Postclosure Costs	Total
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$111,500
0	1,673	0	0	0	0	11,603
0	1,898	0	0	22,589	0	27,845
0	82	1	0	47	9,316	9,502
6,200	1,700	100	0	0	0	8,000
6,200	5,353	101	0	22,736	9,316	168,450
0	6,661	76	25,000	0	0	31,737
0	0	0	0	0	249	157,249
0	0	0	0	0	0	2,100
0	6,661	76	25,000	0	249	191,086
6,200	(1,308)	25	(25,000)	22,736	9,067	(22,636)
0	0	0	25,000	0	624,400	649,400
0	0	0	25,000	0	624,400	649,400
6,200	(1,308)	25	0	22,736	633,467	626,764
0	12,695	122	(17,836)	0	0	432,114
\$6,200	\$11,387	\$147	\$(17,836)	\$22,736	\$633,467	\$1,058,878

CHICKASAW COUNTY
New Hampton, Iowa

COMBINING SCHEDULE OF FIDUCIARY
ASSETS AND LIABILITIES
AGENCY FUNDS
June 30, 2004

	County Offices	Agricultural Extension Education	County Assessor	Schools
ASSETS				
Cash and Pooled Investments				
County Treasurer	\$ 0	\$1,797	\$118,134	\$92,819
Other County Officials	11,809	0	0	0
Receivables				
Property Tax				
Succeeding Year	0	127,601	154,377	6,659,897
Accounts	0	0	0	0
Accrued Interest	0	0	0	0
Due from Other Governments	0	76	87	3,800
TOTAL ASSETS	\$11,809	\$129,474	\$272,598	\$6,756,516
LIABILITIES				
Accounts Payable	\$ 0	\$ 0	\$1,525	\$ 0
Salaries and Benefits Payable	0	0	2,680	0
Due to Other Governments	0	129,474	268,393	6,756,516
Trusts Payable	11,809	0	0	0
TOTAL LIABILITIES	\$11,809	\$129,474	\$272,598	\$6,756,516

See Accompanying Independent Auditors' Report

Schedule 3

Area Schools	Corporations	Townships	Auto License & Use Tax	Other	Total
\$4,441	\$14,438	\$2,265	\$245,062	\$294,853	\$773,809
0	0	0	0	0	11,809
309,236	1,516,031	211,274	0	605,012	9,583,428
0	0	0	0	21,625	21,625
0	0	0	0	90	90
194	1,792	59	0	298	6,306
\$313,871	\$1,532,261	\$213,598	\$245,062	\$921,878	\$10,397,067
\$ 0	\$ 0	\$ 0	\$ 0	\$2,326	\$3,851
0	0	0	0	376	3,056
313,871	1,532,261	213,598	245,062	897,466	10,356,641
0	0	0	0	21,710	33,519
\$313,871	\$1,532,261	\$213,598	\$245,062	\$921,878	\$10,397,067

CHICKASAW COUNTY
New Hampton, Iowa

**COMBINING SCHEDULE OF CHANGES IN FIDUCIARY
ASSETS AND LIABILITIES – AGENCY FUNDS**

Year Ended June 30, 2004

	County Offices	Agricultural Extension Education	County Assessor	Schools
Assets and Liabilities				
Balances Beginning of Year	\$14,452	\$124,723	\$243,729	\$6,686,531
Additions				
Property and Other County Tax	0	130,001	158,292	6,608,814
E911 Surcharge	0	0	0	0
State Tax Credits	0	9,357	11,316	486,859
Office Fees and Collections	231,231	0	0	0
Electronic Transaction Fees	0	0	0	0
Auto Licenses, Use Tax and Postage	0	0	0	0
Assessments	0	0	0	0
Trusts	668,086	0	0	0
Miscellaneous	14,857	0	0	0
Total Additions	914,174	139,358	169,608	7,095,673
Deductions				
Agency Remittances				
To Other Funds	137,603	0	0	0
To Other Governments	688,059	134,607	185,739	7,025,688
Trusts Paid Out	91,155	0	0	0
Total Deductions	916,817	134,607	185,739	7,025,688
Other Financing Sources (Uses)				
Operating Transfers In (Out)	0	0	45,000	0
Balances End of Year	\$11,809	\$129,474	\$272,598	\$6,756,516

See Accompanying Independent Auditors' Report

Schedule 4

Area Schools	Corporations	Townships	City Special Assessments	Auto License & Use Tax	Other	Totals
\$302,038	\$1,454,103	\$122,760	\$514	\$238,175	\$792,324	\$9,979,349
315,491	1,478,978	225,385	0	0	624,177	9,541,138
0	0	0	0	0	78,653	78,653
22,813	154,604	9,055	0	0	46,037	740,041
0	0	0	0	0	0	231,231
0	0	0	0	0	16,293	16,293
0	0	0	0	2,867,414	0	2,867,414
0	0	0	3,903	0	0	3,903
0	0	0	0	0	99,961	768,047
0	0	0	0	0	81,686	96,543
338,304	1,633,582	234,440	3,903	2,867,414	946,807	14,343,263
0	0	0	0	100,003	0	237,606
326,471	1,555,424	143,602	4,417	2,760,524	675,408	13,499,939
0	0	0	0	0	96,845	188,000
326,471	1,555,424	143,602	4,417	2,860,527	772,253	13,925,545
0	0	0	0	0	(45,000)	0
\$313,871	\$1,532,261	\$213,598	\$ 0	\$245,062	\$921,878	\$10,397,067

CHICKASAW COUNTY
New Hampton, Iowa

**SCHEDULE OF REVENUES BY SOURCE AND
EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUND TYPES**

For the Last Two Years

	Modified Accrual Basis	
	2004	2003
Revenues:		
Property & Other County Tax	\$3,740,774	\$3,111,405
Interest & Penalty On Property Tax	28,503	27,431
Intergovernmental	4,007,690	3,622,117
Licenses & Permits	13,165	9,842
Charges For Service	689,513	700,818
Use of Money & Property	148,715	200,168
Miscellaneous	180,712	60,703
Total	<u>\$8,809,072</u>	<u>\$7,732,484</u>
Expenditures:		
Operating		
Public Safety & Legal Services	\$1,063,303	\$1,156,610
Physical Health & Social Services	1,049,749	1,050,744
Mental Health	963,821	1,058,135
County Environment & Education	606,179	485,164
Roads and Transportation	3,641,090	3,273,852
Governmental Services To Residents	295,670	271,566
Administrative Services	832,928	1,018,133
Capital Projects	431,342	141,970
Total	<u>\$8,884,082</u>	<u>\$8,456,174</u>

See Accompanying Independent Auditors' Report

Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting

To the Officials of Chickasaw County
New Hampton, Iowa

We have audited the financial statements of Chickasaw County, New Hampton, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated May 27, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Chickasaw County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the County. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for items (2) and (13).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Chickasaw County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Chickasaw County's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item A is a material weakness. Prior year reportable conditions have been resolved except for items (A) and (B).

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Chickasaw County and other parties to whom Chickasaw County may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Chickasaw County during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

May 27, 2005

CHICKASAW COUNTY

Schedule of Findings Year Ended June 30, 2004

Findings Related to the General Purpose Financial Statements.

INSTANCES OF NON-COMPLIANCE

No matters were reported.

REPORTABLE CONDITIONS

- A **SEGREGATION OF DUTIES** - During our review of internal control, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and, therefore, maximizes the accuracy of the County's financial statements.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, County Officials should review the operating procedures of each office to obtain the maximum internal control possible under the circumstances.

Response – We have reviewed procedures and plan to make the necessary changes to improve internal control. Specifically, the custody, record-keeping and reconciling functions currently performed by each office will be separated and spread among the County Officials, Deputy and Clerk.

Conclusion – Response accepted.

- B **INFORMATION SYSTEMS**– During our review of internal control, the existing control activities in the County's computer based systems were evaluated in order to determine that activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The following weaknesses in the County's computer based systems were noted:

The County does not have written policies for:

- Password privacy and confidentiality.
- Requiring password changes because software does not require the user to change logins/passwords periodically.
- Requiring user profiles to help limit access to programs to those who have a legitimate need.
- Personal use of computer equipment and software.

Recommendation – The County should develop written policies addressing the above items in order to improve the County's control over computer based systems.

Response – The County will comply in the future with these recommendations. County officials have discussed and agree that these policies are needed.

Conclusion – Response accepted.

CHICKASAW COUNTY

Schedule of Findings Year Ended June 30, 2004

Other Findings Related to Required Statutory Reporting

1. **Official Depositories** – A resolution naming official depositories has been adopted by the Board of Supervisors. The maximum deposit amounts stated in the resolution were not exceeded during the year except for Auditor deposits at Security State Bank.

Recommendation – A new resolution in amounts sufficient to cover anticipate balances at all approved depositories should be adopted by the Board.

Response – We adopted a new depository resolution to increase the maximum authorized deposit amount at Security State Bank for the Auditor's office in September of 2003.

Conclusion – Response accepted.

2. **Certified Budget** – Disbursements during the year ended June 30, 2004 exceeded the amounts appropriated in certain departments. It was also noted, an appropriation decrease was not preceded by a public hearing.

Recommendation – Chapter 331.434 (6) of the Code of Iowa authorizes the Board of Supervisors, by resolutions, to increase or decrease appropriations of one office or department by increasing or decreasing the appropriation of another office or department as long as the function budget is not increased. Such increases or decreases should be made before disbursements are allowed to exceed the appropriation. Appropriation decreases should be preceded by a public hearing for decreases of more than 10% or \$5,000, which ever is greater.

Response – We will watch appropriations by department more closely and will award additional appropriations when required. We will hold public hearings when required.

Conclusion – Response accepted.

3. **Questionable Expenditures** – We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

4. **Travel Expense** – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.

5. **Business Transactions** – The following business transactions between the County and County officials or employees were noted:

Name, Title and Business Connection	Transaction	Amount
Leon Wegner, Janitor		
Owner of Leon Wegner Painting	Services	\$ 46
Dan Douglas, Conservation Dept.		
Owner of On-Track Door Company	Services	520
Lance Manson, Sheriff's Dept.		
Owner of Manson Woodworking	Services	100

The transactions with County employees appear to be in accordance with Chapter 331.342 of the Code of Iowa as they were less than \$1,500 during the fiscal year.

6. **Bond Coverage** – Surety bond coverage of County officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations

CHICKASAW COUNTY

Schedule of Findings Year Ended June 30, 2004

7. **Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes but were not.
8. **Deposits and Investments** – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the County's investment policy were noted.
9. **Resource Enhancement and Protection Certification** – The County properly dedicated property tax revenue to conservation purposes as required by Chapter 455A.19 (1)(b) of the Code of Iowa in order to receive additional REAP funds allocated in accordance with subsections (b)(2) and (b)(3).
10. **Economic Development** – During the year ended June 30, 2004, the County expended \$128,000 for economic development, which may be an appropriate expenditures of public funds since benefits to be derived have been clearly documented.

According to Chapter 15A of the Code of Iowa and an Attorney General's opinion dated August 28, 1986, government financing of economic development may, in appropriate circumstances, serve a public purpose. The opinion advises that the governing body should evaluate the public benefits to be obtained and discusses specific criteria to be considered in documenting public purpose.

11. **County Extension Office** –The County Extension Office is operated under the authority of Chapter 176A of the Code of Iowa and serves as an agency of the State of Iowa. This fund is administered by an extension council separate and distinct from County operations and, consequently, is not included in Exhibits A or B. Disbursements during the year ended June 30, 2004 for the County Extension Office did not exceed the amount budgeted.
12. **Financial Assurance** – The County is required to demonstrate financial assurance for postclosure care costs for the landfill. The County has chosen a local government dedicated fund as provided in Chapter 111.6 (8) of the Iowa Administrative Code. The County is in compliance with the Code.
13. **Deficit Fund Balance** – We noted a deficit fund balance in the Special Revenue Fund, Ambulance Services account at June 30, 2004 of \$17,836.

Recommendation – The Board of Supervisors should determine the manner in which the deficit will be eliminated.

Response – A transfer will be made from the General Fund to eliminate the deficit.

Conclusion – Response accepted.

14. **Separately Maintained Account** – We noted the Internal Service Fund – Employee Group Health was not included in the County's accounting system or financial reporting. Disbursements from the fund are not included in the claims process.

Recommendation – The Employee Group Health account should be included in the County's accounting system, claims process and financial reporting. In Accordance with the Code of Iowa, all collections should be remitted to the County Treasurer and all expenditures should be approved by the County Board of Supervisors and reflected in the County's accounting system and financial reports.

Response – We will consider including this account in the County's accounting system and financial reports.

Conclusion – Response accepted.

News Release

Gardiner Thomsen, P.C. today released an audit report on Chickasaw County, Iowa.

The County has implemented new reporting standards for the year ended June 30, 2004, with significant changes in content and structure of the financial statements. The new financial statements include a Statement of Net Assets and a Statement of Activities which provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Also included is Management's Discussion and Analysis of the County's financial statements.

The County had local tax revenue of \$13,813,112 for the year ended June 30, 2004, which included \$977,201 in tax credits from the state. The County forwarded \$9,880,341 of the local tax revenue to the townships, school districts, cities and other taxing bodies in the County.

The County retained \$3,932,771 of the local tax revenue to finance County operations, a 20% increase from the prior year. Other revenues included charges for service of \$1,466,026, operating grants, contributions and restricted interest of \$3,303,299, unrestricted investment earnings of \$134,410 and other general revenues of \$531,524.

Expenditures for the County operations totaled \$9,287,710, a 5% increase from the prior year. Expenses included \$3,641,090 for Roads and Transportation, \$1,063,303 for Public Safety and Legal Services, and \$1,049,749 for Public Health and Social Services.

The significant increase in revenues and expenses is due primarily to tax revenue and Roads and Transportation Expenditures.

A copy of the audit report is available for review in the office of the Auditor of State and the Chickasaw County Auditor's office.

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